

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL & GAS

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Return Receipt Requested

October 10, 2011

Ms. Amy Frankenburg
Northstar Resource Manager
BP Exploration (Alaska) Inc.
P.O. Box 196612
Anchorage, AK 99519-6612

Re: Contraction of the Northstar Unit

Dear Ms. Frankenburg:

The Department of Natural Resources, Division of Oil and Gas (Division) and the Bureau of Safety and Environmental Enforcement (BSEE) jointly manage the Northstar Unit. On September 26, 2011, BP Exploration (Alaska) Inc. (BPXA), as Operator of the Northstar Unit (NSU), on behalf of itself and other working interest owner Murphy Exploration (Alaska), Inc., submitted a proposal to contract the NSU (Proposal). BPXA believes that under Section 13.3 of the NSU Agreement (Agreement), that the unit boundaries should continue to include all of Lease No. OCS-Y-0181 as it contains a reservoir (NS-34A Reservoir) and the adjacent lands include an aquifer that provides pressure support to the producing NS-34A Reservoir. It is the position of the Division that Section 13.3 is not applicable under this circumstance as this subsection pertains to the discretionary contraction of the unit not sooner than ten years from the effective date of the Agreement.

The NSU was approved effective January 24, 1990, with the initial Participating Area (PA) (Northstar PA) approved effective October 11, 2001. Under Section 13.2 of the Agreement, portions of any lease not within a participating area are due to automatically contract out of the NSU on the tenth anniversary of the approval of the initial participating area—October 11, 2011. This Section does not contain a provision to delay this mandatory contraction nor does it speak to those adjacent lands that facilitate PA production.

I believe that the Division has the authority to delay this mandatory contraction affecting OCS-Y-0181 because, under Section 17.1 of the Agreement, the agreement is subject to and incorporates all valid applicable Federal and State laws, rules and regulations subsequently enacted or adopted, including the contraction delay provision set out in 11 AAC 83.356(b). Under 11 AAC 83.356(b), the unit must be contracted to include only those lands then included in an approved participating area and lands that facilitate production including the immediately adjacent lands necessary for secondary or tertiary recovery, pressure maintenance, reinjection, or cycling operations. That portion of OCS-Y-0181 outside of the Northstar PA does not provide lands necessary for secondary or tertiary recovery, pressure maintenance, reinjection, or cycling operations for the Northstar PA Reservoir. The Alaska Oil and Gas Conservation Commission Area Injection Order No. 23, dated October 9, 2001, provides for the injection of miscible gas to maintain reservoir pressure and enhance ultimate recovery for the Northstar PA Reservoir. Wells necessary for miscible gas injection are not located in that portion of the OCS-Y-0181 that lies outside the Northstar PA boundary.

“Develop, Conserve, and Enhance Natural Resources for Present and Future Alaskans.”

I have considered the public and confidential data submitted with the Proposal and the provisions of 11 AAC 83.303 and Section 9.5 of the Agreement. Section 9.5 of the Agreement provides that a separate participating area shall be established for each separate reservoir in the unit area. Under Section 13.2 of the Agreement, effective October 11, 2011, the NSU is contracted to the Northstar PA boundary, except that BPXA shall have 120 days from the date of this letter to submit an application to form a participating area that covers the NS-34A reservoir within OCS-Y-0181. If such a PA application is not filed within 120 days of this letter, that portion of OCS-Y-0181 not included within a participating area contracts out of the NSU, effective October 11, 2011. This decision is subject to concurrence by BSEE.

A. Decision Criteria considered under 11 AAC 83.303(b)

1. Environmental Costs and Benefits

Delay of the contraction of OCS-Y-0181 will not produce any more environmental costs than the initial unit formation approval produced. Delay of contraction for OCS-Y-0181 will allow BPXA the opportunity to submit either a participating area application for the NS-34A reservoir or to finalize a facility sharing agreement for the processing of outside substances through the existing NSU/Northstar PA facilities.

2. Geologic and Engineering Characteristics and Prior Development Activities

The Division has previously considered the geologic and engineering characteristics and development activities in its approvals of the NSU, the existing Northstar PA and the NS-34A tract operations approval.

3. Prior Exploration Activities

BPXA spudded the NS-34 well within OCS-Y-0181 on March 24, 2006. Completion of the NS-34A well was May 17, 2008 while first sustained production commenced on May 18, 2008. No other wells are drilled on the NS-34A structure.

4. Plans of Development

BPXA submitted confidential data in support of the NS-34A tract operations. The Division and BSEE approved the NS-34A tract operation, and extensions thereof, under which the reservoir is produced. Annual plans of development include the tract operations and production data from the NS-34A well is reported in the BPXA's annual Northstar reservoir surveillance report.

5. Economic Costs and Benefits to the State

Delaying the contraction of the OCS-Y-0181 lease by 120 days allows BPXA the opportunity to determine the best way forward in which to proceed with production from the NS-34A reservoir, participating area or lease operation. Either way the State is entitled to 27 percent of royalties derived from OCS-Y-0181 under the Outer Continental Shelf Lands Act.

B. Decision Criteria Considered under 11 AAC 83.303(a)

1. Promote the Conservation of All Natural Resources

The Division considered the promotion of the conservation of all natural resources during the approval of the NSU. The approval of the contraction delay for OCS-Y-0181 provides for the continued development of the NS-34A reservoir, minimizing additional environmental impacts by using existing production facilities.

2. Prevention of Economic and Physical Waste

Economic waste is often referred to as the drilling of wells in excess of the number necessary for the efficient recovery of the oil and gas in place. Physical waste, among other things, includes the inefficient, excessive, or improper use, or unnecessary dissipation of, reservoir energy.

Contraction delay of OCS-Y-0181 would have no effect on the prevention of economic and physical waste.

3. Protection of All Parties of Interest

Contraction delay of OCS-Y-0181 with the continued NS-34A production protects all parties.

A person affected by this decision may appeal it, in accordance with 11 AAC 02. Any appeal must be received within 20 calendar days after the date of "issuance" of this decision, as defined in 11 AAC 02.040 (c) and (d), and may be mailed or delivered to Daniel S. Sullivan, Commissioner, DNR, 550 W. 7th Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to (907) 269-8918, or sent by electronic mail to dnr.appeals@alaska.gov. This decision takes effect immediately. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

If you have questions regarding this decision, please do not hesitate to contact Ms. Patricia Bettis at (907) 269-8451.

Sincerely,



Jonne Slemons
Deputy Director

Cc: Jeff Walker, BSEE
R.L. Skillern, BPXA
Richard Todd, DOL
Dan Seamount, Chair AOGCC
Cammy Taylor, DNR
Patricia Bettis, DNR